

COMPLIANCE AND CONTROL AUDIT REPORT

Juvenile Justice Authority

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
October 2000**



Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$8 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is se-

lected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

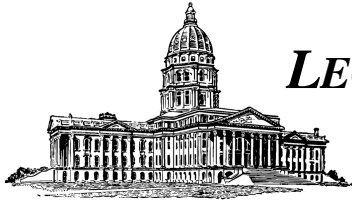
Senator Lana Oleen, Chair
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Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

Representative Kenny Wilk, Vice-Chair
Representative Richard Alldritt
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October 24, 2000

To: Members, Legislative Post Audit Committee

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Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

Representative Kenny Wilk, Vice-Chair
Representative Richard Alldritt
Representative John Ballou
Representative Lynn Jenkins
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This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the Juvenile Justice Authority.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

**Question 1: Have the Moneys in the Juvenile Detention Facilities Fund Been
Used for the Purposes Specified in the Law?**

For fiscal years 1998 through 2000, Juvenile Detention Facilities Fund moneys were used for 4 purposes.page 3
The Juvenile Justice Authority used Fund moneys to make per-diem payments to local juvenile detention facilities for housing juveniles under the State's jurisdiction, to make debt service payments on bonds issued for construction of local juvenile detention facilities, and to make grants to local juvenile detention facilities. In addition, the Legislature transferred money to other State funds—in 1998 to the Authority's Community Planning Fund, and in 2000 to the State General Fund.

The uses of Juvenile Detention Facilities Fund moneys were allowed by State law.page 4
The Authority's use of Fund moneys adhered to the specific restrictions on the use of Fund moneys found in the statutes. The Legislature's transfers of Fund moneys to other State funds was done through the appropriations acts. If appropriations acts conflict with existing statutes, the appropriations acts function as temporary amendments to the existing statutes.

**Question 2: Has the Commissioner of Juvenile Justice Established
Reasonable Criteria for Determining the Amount of Money Available From
the Juvenile Detention Facilities Fund for Grants to Counties And for
Evaluating the Grant Applications the Counties Submit?**

The Juvenile Justice Authority has a reasonable process for determining the amount of moneys available from the Juvenile Detention Facilities Fund for grants to counties.page 6
Within the spending limit placed on the Fund by the Legislature, the Authority must first meet its obligations for per-diem payments to local detention facilities and for debt service payments. Once those obligations are met, the Authority may spend remaining moneys on grants to counties. The Authority followed that approach for fiscal year 2000. When per-diem payments turned out to be less than anticipated, the Authority used some of the moneys freed up to increase grants to counties.

The Juvenile Justice Authority's criteria for evaluating the grant applications counties submitted was reasonable and consistent with statutory requirements.page 7
In evaluating grant applications, the Authority should make sure that the intended use of grant moneys adheres to statutory restrictions on grant moneys. The Authority did that by reviewing applications received. In addition, State law calls for the Authority to distribute grant moneys in a quick and efficient manner. The Authority's process of allocating grant moneys in proportion to the number of each facility's licensed beds meets that requirement.

Question 3: Did the Juvenile Justice Authority's Procedures Ensure That Grants to Local Organizations Were Used in Accordance with Applicable Restrictions?

The Juvenile Justice Authority's procedures ensured that grants to local organizations were used in accordance with applicable restrictions. We focused our review on Core Program grants—for local prevention and intervention programs—and on grants from the Juvenile Detention Facilities Fund. The Authority identified applicable restrictions on the use of grant moneys, and notified applicants of those restrictions. In addition, the Authority reviewed grant applications to ensure that the intended use of grant moneys adhered to those restrictions. For Core Program grants, the Authority also monitored the actual use of grant moneys. For Juvenile Detention Facilities Fund grants, the Authority didn't monitor actual use. However, that seems to be a reasonable and cost-effective use of resources because those grants account for less than 1% of the Authority's total aid to local units.

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Question 4: Did the Juvenile Justice Authority Pay Its Vendors On a Timely Basis?

About 7% of the sample of vendor payments we reviewed weren't timely. We looked at 30 payments for things like office supplies and equipment. Most were paid on a timely basis. Only 2 of those payments weren't made on a timely basis, and neither was more than 10 days late. For our sample payments, the Authority didn't pay any late fees or finance charges.

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This audit was conducted by Jennifer Wagner and Robin Kempf. Randy Tongier was the audit manager. If you need additional information about this audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You may also call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

The Juvenile Justice Authority

The Legislative Division of Post Audit has conducted compliance and control audit work at the Juvenile Justice Authority. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the use of moneys in the Juvenile Detention Facilities Fund, how the Authority ensures that local agencies it gives moneys to adhere to spending restrictions on those moneys, and whether the Authority makes timely payments to vendors. The audit addresses the following specific questions:

- 1. Have the moneys in the Juvenile Detention Facilities Fund been used for the purposes specified in the law?**
- 2. Has the Commissioner of Juvenile Justice established reasonable criteria for determining the amount of money available for grants to counties and for evaluating the grant applications the counties submit?**
- 3. Did the Juvenile Justice Authority's procedures ensure that grants to local organizations were used in accordance with applicable restrictions?**
- 4. Did the Juvenile Justice Authority pay its vendors on a timely basis?**

To answer these questions, we reviewed applicable provisions of State law, interviewed officials of the Juvenile Justice Authority and other State officials, reviewed and evaluated Authority procedures, and reviewed a sample of Authority files and records.

At the direction of the Legislative Post Audit Committee, this audit included answering questions originally posed as a performance audit request. Those questions fell within the scope the work already adopted for this compliance and control audit. A copy of the scope statement for that audit is included in Appendix A.

In conducting this audit, we followed all applicable government auditing standards.

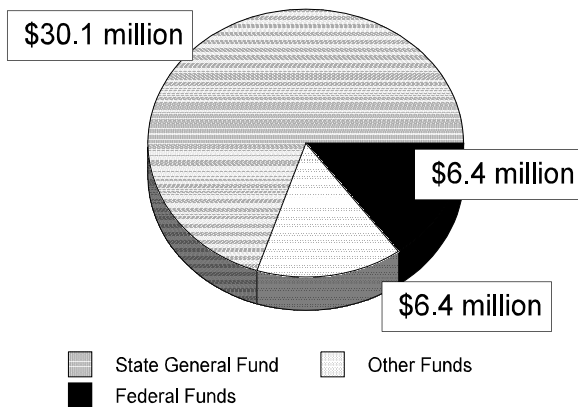
The Juvenile Justice Authority AT A GLANCE

Authority: Created by K.S.A. 75-7001.

Staffing: The Authority has about 40 full-time-equivalent positions, not including staff at the State juvenile correctional facilities.

Budget: The Authority's major funding comes from General Fund appropriations. The Authority also receives moneys from other sources, including federal grants and transfers from the State Gaming Fund. For the most recent year, the Authority took in and spent about \$43 million as shown below. Most of these moneys were passed on as aid to local units, mainly for prevention and intervention programs.

FY 1999 Funding Sources



Total Funding: \$42.9 million

FY 1999 Expenditures

<u>Type</u>	<u>Amount</u>	<u>% of Total</u>
Aid to Local Units	\$ 37,849,661	88 %
Contractual Services	2,296,544	5 %
Salaries/Wages	1,668,127	4 %
Capital Expenditures	1,022,026	2 %
Other	<u>51,712</u>	<u>1 %</u>

Total Expenditures: \$ 42,888,075 100%

Question 1: Have the Moneys in the Juvenile Detention Facilities Fund Been Used for the Purposes Specified in the Law?

During fiscal years 1998, 1999, and 2000, the Juvenile Justice Authority used moneys in the Juvenile Detention Facilities Fund mainly to make per diem payments for juveniles housed in local detention centers, to pay debt service on bonds issued by the Kansas Development Finance Authority for construction of juvenile detention facilities, and to make grants to local detention facilities for construction, remodeling, and operating costs. Such uses are specifically allowed by the applicable State statute.

In addition, the Legislature transferred moneys from the Juvenile Detention Facilities Fund to other State funds. At the end of fiscal year 1998 the Legislature transferred \$800,000 to the Authority's Community Planning Fund, and at the beginning of fiscal year 2001 the Legislature transferred \$1,000,000 to the State General Fund. These transfers were authorized by appropriations acts of the Legislature. Although the State statute dealing with the Fund doesn't mention such transfers, the applicable appropriation acts are in essence temporary amendments to that statute. These and other findings are discussed in the sections that follow.

For Fiscal Years 1998 Through 2000, Juvenile Detention Facilities Fund Moneys Were Used for 4 Purposes

The Juvenile Detention Facilities Fund was established to help fund some of the costs of local juvenile detention facilities. The Fund is financed mainly by a percentage of State Gaming Revenue Fund receipts and by a portion of district court fees. Annual Fund revenues are about \$4.0 million.

We looked at the use of Fund moneys for fiscal years 1998 through 2000, and found that Juvenile Detention Facilities Fund moneys were used for 4 purposes:

- ! The Authority made per diem reimbursements to local juvenile detention facilities, such as the Northeast Kansas Regional Detention Center in Douglas County, for housing juveniles under the State's jurisdiction. Currently, reimbursements are \$100/day.
- ! The Authority made debt service payments on bonds issued by the Kansas Development Finance Authority for construction of local juvenile detention facilities.
- ! The Authority made grants to local juvenile detention facilities for construction, remodeling, and operating costs.

! The Legislature transferred moneys to other State funds—in 1998 to the Authority’s Community Planning Fund, and in 2000 to the State General Fund.

The amounts spent for each of these purposes are as follows:

Uses of Juvenile Detention Facilities Fund
(in millions of dollars)

Uses	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Total	% of Total
Per-Diem Reimbursements to Local Detention Facilities	\$ 2.1	\$ 2.7	\$ 2.0	\$ 6.8	62 %
Debt Service on Bonds	0.6	0.6	0.7	1.9	17
Grants to Local Detention Facilities	0.0	0.2	0.3	0.5	5
Transfers to Other Funds	0.8 (a)	0.0	1.0	1.8 (b)	16
Totals	\$ 3.5	\$ 3.5	\$ 4.0	\$ 11.0	100 %

- (a) To increase funding for community planning, the Legislature transferred \$800,000 from the Juvenile Detention Facilities Fund to the Authority’s Community Planning Fund.
- (b) To help deal with general budget shortfalls, the Legislature transferred \$1,000,000 from the Juvenile Detention Facilities Fund to the State General Fund.

The Uses of Juvenile Detention Facilities Fund Moneys Were Allowed by State Law

The statute dealing with the Juvenile Detention Facilities Fund (K.S.A. 2000 Supp. 79-4803) specifies that Fund moneys can be used to retire the debt from building juvenile detention facilities or to build, renovate, remodel, and operate juvenile detention facilities.

All the actual uses of Fund moneys we identified for fiscal years 1998 through 2000 clearly met these restrictions, except for the Legislature’s 2 transfers of Fund moneys to other State funds.

The Legislature transferred Fund moneys to other State funds through its annual appropriations acts. One concern that was raised when we started this audit was whether transfers of Fund moneys to other State funds was allowed. Although these transfers aren’t consistent with the statutory restrictions on the use of Fund moneys, they still are a proper use of legislative authority. According to officials of the Revisor of Statutes’

Office, any appropriation act of the Legislature that seems to contradict existing statutory provisions should be considered as a temporary amendment to the existing statutes. That viewpoint is supported by Attorney General's Opinion No. 92-86.

Thus, although not specifically authorized by statute, the Legislature's transfers of Fund moneys to other State funds were legal.

Question 2: Has the Commissioner of Juvenile Justice Established Reasonable Criteria for Determining the Amount of Money Available From the Juvenile Detention Facilities Fund for Grants to Counties And For Evaluating the Grant Applications the Counties Submit?

The Commissioner has established reasonable criteria for determining the amount of money available for grants to counties. In general, these criteria are built into the budget process, which takes into account the total spending levels the Legislature authorized for the Fund, and anticipated spending commitments for debt service and per-diem payments to local detention facilities. The Commissioner also has established reasonable criteria for evaluating grant applications the counties submit. Those criteria addressed the statutory restrictions on spending the Fund's moneys, and allocated grant moneys in proportion to the number of licensed beds at the various detention facilities. These and other findings are discussed in the sections that follow.

The Juvenile Justice Authority Has a Reasonable Process for Determining the Amount of Moneys Available from the Juvenile Detention Facilities Fund for Grants to Counties

Fund moneys available for grants to counties are limited by the expenditure limit the Legislature places on the Fund through the appropriations acts, and by existing commitments for debt service and per-diem payments.

Debt service payments are set by the bond agreement and are known in advance, while the amount of per-diem payments depends on the number of juveniles under the Authority's jurisdiction who are in local detention facilities, the length of their stays, and the daily reimbursement rate in effect.

A reasonable process for taking all these factors into account to determine the amount of Fund moneys available for grants to counties in any given fiscal year would include the following:

- ! identifying the total spending limit on the Fund
- ! identifying the amount needed to pay debt service
- ! estimating the amount needed to make per-diem payments
- ! subtracting the debt service and per-diem amounts from the total spending limit to identify an amount available for grants to counties
- ! assigning an amount to be distributed as grants to counties

- ! monitoring actual spending for per-diem payments, and considering whether total payments for the year might be less than originally estimated. If per-diem payments are less than originally estimated, the Authority could consider increasing the amount of moneys assigned to be distributed as grants to counties.

During fiscal year 2000, the Authority used essentially the process described above. When per-diem spending turned out to be lower than anticipated, the Authority increased the amount of Fund moneys granted to counties from \$200,000 to \$275,000.

The Juvenile Justice Authority's Criteria for Evaluating the Grant Applications Counties Submitted Was Reasonable and Consistent with Statutory Requirements

In evaluating counties' grant applications, the Juvenile Justice Authority must make sure that Fund moneys are used in accordance with statutory restrictions. Further, State law specifies that the criteria for distributing grants must be quick and efficient, and that the Kansas Advisory Group on Juvenile Justice and Delinquency Prevention should review the grant procedures and make recommendations.

A reasonable process for evaluating grant applications counties submit for Juvenile Detention Facilities Fund moneys would include the following:

- ! notifying counties that grant moneys are available, specifying the amount of moneys available, and indicating any restrictions placed on the use of grant moneys
- ! asking counties to submit written grant applications that specify how they would use the grant moneys they are applying for
- ! reviewing the grant applications submitted to make sure the planned use of grant moneys adheres to any restrictions
- ! choosing a way of allocating grant moneys among counties that is quick and efficient
- ! notifying counties of actions taken on their grant applications (approvals or disapprovals and the amount awarded)
- ! having the Kansas Advisory Group on Juvenile Justice and Delinquency Prevention review the Authority's grant procedures and make recommendations

During fiscal year 2000, the Authority used essentially the process described above. The method chosen for allocating grant moneys among counties was distribution in proportion to the number of licensed beds. In other words, a facility that had 10% of the total licensed beds would get 10% of the available grant moneys. While that method might not be designed to prioritize competing needs, it certainly meets the statutory

requirement for quickness and efficiency. The Advisory Group recommended additional funding for grants to counties, and the Authority did increase grant spending from the originally budgeted \$200,000 to \$275,000.

Question 3: Did the Juvenile Justice Authority's Procedures Ensure That Grants to Local Organizations Were Used in Accordance with Applicable Restrictions?

The Juvenile Justice Authority's procedures were appropriately designed to ensure that grants to local organizations were used in accordance with applicable restrictions, and those procedures were operating effectively during fiscal year 2000. As a result, the Authority was able to minimize the risk of inappropriate spending of moneys it granted to local organizations. Further, for the sample of grants we reviewed, we saw no indication of inappropriate spending. These and other findings are discussed in the sections that follow.

The Juvenile Justice Authority's Procedures Ensured That Grants to Local Organizations Were Used in Accordance with Applicable Restrictions

The Juvenile Justice Authority makes numerous grants to local organizations. Those grants are funded by State General Fund moneys, tobacco moneys, federal grants to the Authority, and moneys from other State funds, such as the State Gaming Revenue Fund. We focused our review in two areas:

- ! the Authority's Core Program grants, because those grants comprised the Authority's largest grant program accounting for about \$18 million in fiscal year 2000 (half the Authority's aid to local units)
- ! grants from the Juvenile Detention Facilities Fund, because that grant program was the subject of other audit questions

The Authority's Core Program grants provide funding to counties for prevention and intervention programs in the areas of intake and assessment, intensive supervision (such as alcohol and drug testing, electronic monitoring, education, and employment), and case management. Almost 90% of the funding for these grants is provided by the State General Fund, with the remainder coming from tobacco settlement moneys. As mentioned earlier in this report, Juvenile Detention Facilities Fund grants are made to local counties for construction, remodeling, renovation, and operation of juvenile detention facilities.

To answer this question, we identified best practices, interviewed Authority officials, reviewed a sample of grant files, and reviewed audit work done on the grants by the Authority's Inspector General.

Reasonable procedures to help ensure that grants to local organizations were used in accordance with applicable restrictions would include the following:

- ! identifying the applicable restrictions on use of grant moneys by local organizations
- ! making the local organizations aware of the applicable restrictions
- ! requiring periodic reports from local organizations indicating how they've been spending grant moneys
- ! reviewing the periodic spending reports and looking into any questionable items
- ! making periodic on-site visits to review financial management systems, answer any questions regarding the use of grant moneys, and review documentation for expenditures
- ! calling for periodic independent audits that cover how grant moneys have been used, reviewing the resulting audit reports, and resolving any questionable items

Not all of these procedures would be necessary, but some reasonable combination of them generally would be appropriate as needed to limit the risk of misusing grant moneys.

During fiscal year 2000, the Authority generally followed these procedures for the Core Program grants. However, it followed only some of these procedures for grants to counties from the Juvenile Detention Facilities Fund. In particular, the Authority did no monitoring of the eventual use of grants from the Fund. Nevertheless, given the limited amount of moneys involved in those grants (\$275,000) compared to all aid to local units (almost \$38 million), that limited amount of monitoring seems reasonable.

Question 4: Did the Juvenile Justice Authority Pay Its Vendors On a Timely Basis?

The Juvenile Justice Authority generally paid its vendors on a timely basis. In the few instances where vendor payments were late, they were late only by a few days. Further, the Authority didn't incur any additional finance charges or late fees. The basis for these findings is summarized below.

About 7% of the Sample of Vendor Payments We Reviewed Weren't Timely

To see if the Authority paid its vendors on time, we looked at a sample of 30 payments for expenses such as office supplies, equipment, and paging services. Of the 30 payments we tested, 2 (7%) weren't made on a timely basis. We considered a payment to be timely if it was made to the vendor either by the due date specified on the statement or invoice, or if it was made within 30 days of the statement or invoice date if a due date wasn't specified. Both late payments we found were made within 10 days of the due date.

When payments to vendors aren't made on a timely basis, vendors sometimes add a finance charge or late fee to the amount due. In extreme cases, vendors may ask for prepayments, or may even refuse to do business with chronic late payers. On the other hand, if a payment is made quickly, some vendors offer a reduction in the amount due (a discount). For the payments we reviewed, no additional finance charges or late fees were incurred. We did see one discount for timely payment the Authority didn't take, but the discount would have been less than \$1.

APPENDIX A

Scope Statement

This appendix contains a scope statement approved by the Legislative Post Audit Committee for inclusion as part of this audit on August 11, 2000. The audit was requested by Representative Weber. The scope statement shown here constitutes questions 1 and 2 of this audit.

SCOPE STATEMENT

Reviewing The Use of Juvenile Detention Facilities Fund Moneys

The Juvenile Detention Facilities Fund was originally created by the 1986 Legislature as part of gaming legislation that was passed that year. Currently the Fund is financed primarily by a transfer of 5% of all moneys credited to the State Gaming Revenues Fund. The law specifies that moneys in the Fund shall be for the retirement of juvenile detention facility debt or for the construction, renovation, remodeling or operational costs of juvenile detention facilities. Moneys for construction, renovation, remodeling, or operational costs are to be distributed based on a grant program administered by the Commissioner of Juvenile Justice. The law says that the grant program is to have criteria designed to “facilitate the expeditious award and payment of grants for the purposes for which the moneys are intended.”

Recently, local officials in the area served by the North Central Kansas Juvenile Detention Center have expressed concerns to their legislators after they were told money wasn’t available for two grant requests they made (one for a facility expansion, and one for an interactive video setup). After their funding requests were turned down, they learned that \$1million was transferred out of the Fund to cover State General Fund shortfalls, and that Juvenile Justice Authority staff reported to the Legislature that there was a substantial unbudgeted balance in the Fund that would be carried over to the next fiscal year.

In response, legislators have raised concerns about whether the money in the Fund is being used for the intended purposes, whether there’s a reasonable basis for determining the amount of money available for grants to counties, and whether there are reasonable criteria for evaluating the grant applications that are submitted. A performance audit of this area would answer the following questions.

- 1. Have the moneys in the Juvenile Detention Facilities Fund been used for the purposes specified in the law?** To answer this question, we’d review the history of the legislation establishing the Fund. As needed, we’d review any available minutes of legislative committee hearings at the time the law was passed, and talk with legislators and legislative staff to learn what the moneys in the Fund were intended for. We’d get information from the Division of Accounts and Reports regarding the receipts Fund balances, and detailed expenditure information for the past several years. We’d review those expenditures to determine whether they were made for the purposes called for in the law. We’d do other related work as needed.
- 2. Has the Commissioner of Juvenile Justice established reasonable criteria for determining the amount of money available for grants to counties and for evaluating the grant applications the counties submit?** To answer this question, we’d look at any legal requirements for establishing grant procedures and determine whether the Juvenile Justice Authority had followed them. We’d review the Juvenile Justice Authority’s procedures to determine their

basis for determining the amount of money available for grants to counties each year, and for determining which grant requests should be funded. We'd interview agency officials to determine how those procedures are applied. We'd assess whether the procedures for determining the amounts to make available for grants appear to be reasonable given the Fund's receipts and fund balance over time. We'd compare the Authority's procedures for evaluating grants against good practices for reviewing and awarding grant applications. We'd also check to see that those procedures generally were being followed. We'd conduct additional work in this area as necessary.

Estimated completion time: 3-5 weeks

APPENDIX B

Agency Response

On October 12, we provided a copy of the draft audit report to the Juvenile Justice Authority. The Authority's response is included in this appendix.